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AND

North-Western Railway Co'y of Canada.

LETTER

OF THE PRESIDENT, MR. ANDREW ALLAN,

TO THE

Holders of the £540,000 Six per cent (1886)

First Mortgage Bonds,

DATED

Montreal, 9th October, 1894.

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Manitoba and North-Western Railway Company

OF CANADA.

LETTER

Of the President, MR. ANDREW ALLAN, *to the holders of the £540,000 Six per cent (1886) First Mortgage Bonds dated Montreal, 9th October, 1894.*

My attention has been called to an account of the proceedings of a Meeting of the holders of the £540,000 first mortgage bonds of the Manitoba and North Western Railway Company of Canada, held on the 23rd of July last, at which Mr. Edward F. Coates presided as Chairman.

The Chairman in his lengthy address appeared desirous of creating the impression that in some indefinite way or another the Messrs. Allan were responsible to the Bondholders of the First Division, and that they had committed some impropriety in procuring the appointment of a Receiver, and were desirous of depriving the Bondholders of their rights under their security.

There is no foundation whatever for any of these suggestions, and what object the Chairman had in attempting to create such an impression, it is hard to understand. As a matter of fact, the Messrs. Allan made no representation regarding, nor did they ever make themselves in any way responsible for, the issue of the first mortgage bonds, which were issued in the ordinary way through financial houses in London by the Railway Company.

If the Chairman, who is well acquainted with all th facts, had desired to make a fair statement of the position, he would have informed the Bondholders that the whole proceeds of the £540,000 bonds were spent in the construction of the Bondholders 180 miles, with perhaps the exception of the usually large commissions paid to the financial houses in London; that the road has never been able to pay its bond interest, that the returns regularly made to the Trustees and to the Government have always shewn this, that the Messrs. Allan provided nearly all the rolling stock for the Company, and up to the date the Receiver was appointed were never paid the agreed rental therefor, and that they, out of their own pocket, have paid seven interest coupons, amounting without interest to £99,350 and that they are for this and for various other sums paid on behalf of the Railway, interested to an extent almost as large as the whole of the Bondholders.

Under these circumstances it would seem that they were the proper people to apply for a Receiver, as they did; and their action in doing so was absolutely necessary to preserve the Railway from the attacks of its other creditors, who would doubtless have commenced actions against the Company on default of payment of bond interest.

By the appointment of a Receiver, the whole assets and revenues of the Company were put in the custody of the Court, and no money has been or can be expended without the Court's sanction. The application for a Receiver was made as much for the protection of the Bondholders and other creditors as for the Company, and it would be impossible, even if the Directors so desired, to injure or destroy the Bondholders position as first lien holders on the 180 miles.

At various times during the Company's history, there have been associated with them on the Directorate wealthy and influential men, who were not connected with them in any other way, and it has only been owing to the persistent

effort of the Messrs. Allan to make this enterprise successful that they have become owners of so large a proportion of the stock, and have been called upon to pay so large an amount of money as they have invested in the Company.

The Chairman further stated that the first mortgage Bondholders absolutely refused to invest in bonds upon any portion of the line not in the Province of Manitoba. This is incorrect, as the 180 miles, upon which the Bondholders security now exists, extends some distance beyond the limits of the Province, and into the North-West Territories.

The Chairman stated that within his knowledge the gentleman counselling the late Sir Hugh Allan at the time the present Bonds were being negotiated advised him that it was impossible to float Blanket Bonds in England covering the road then built and to be built.

I can only say in answer to this statement that Sir Hugh Allan died in the year 1882, and the Bonds were sold in England in 1886.

The Chairman further stated that the Allans were the principal stockholders in the Company, holding shares to the extent of £930,000, on which no very large percentage had been paid; that in 1886 they had received the proceeds of the £540,000 loan; that in June, 1893, default had been made in payment of the interest, and that on the Company being required to deliver up possession of the First Division of the Railway, the Messrs. Allan had replied,—I quote the Chairman's words, from the printed proceedings of the Meeting,—"No; we have got your money; we ridicule the "powers of the Trust Deed, they were ultra vires of the "power of the Company to confer, and they must be ignored "or upset. We have made a bad speculation, and you, the "English Bondholders, must share that speculation, although "you had no shares and no reversionary rights in the "Company. (Cries of shame), and that he presumed the "Allans had "decided on a policy of defiance, and of

"seeking to deprive us (the Bondholders) by every means "in their power of what we have always understood and "believed were our unquestionable rights under the Trust "Deed."

As regards this, the Chairman has sought to mislead the Bondholders. No such expressions have ever been used by the Messrs. Allan, or any one on their behalf, in reference to these matters, and the proceedings in the Courts do not warrant any such statements.

The only matter really in dispute between the Trustees of the Bondholders and the Company, is as to the meaning of the mortgage. The mortgage grants the First Division of the Railway to the Trustees "*subject nevertheless to the* "*working expenses of the said Railway and telegraph, and* "*to all rates, taxes and assessments and other Government* "*charges.*" The Company claim that "*subject to the working* "*expenses of the Railway*" means what it says. The Chairman and Trustees deny this contention, claiming that these words mean "*subject to the working expenses of a portion of the Railway,*" i.e. the First Division.

This in effect is the sole matter of contention between the Bondholders and the Company, and might have been readily decided by the Courts without the useless and expensive litigation that is now going on.

There really is no conflict of interest between the Messrs. Allan and the Bondholders. The severment of the line would be harmful to all. Without the business given by the Second Division and Branches, the First Division would not earn running expenses; and without the extension, and the business thereby created, the First Division can never earn enough to pay interest upon the bonds.

Shortly after the appointment of Mr. Montagu Allan as Receiver, and after he had given large security for the proper performance of his duties, the Trustees representatives sought to take possession of the 180 miles with the announced

determination of operating that Division independently, and without regard to the remaining portions of the line. The Company resisted this demand, upon the ground that the Trustees were not empowered to make it under the terms of the Trust Deed, that under the Canadian Railway Act the Trustees had no power to operate a Railway, and that compliance with the demand would result in operations being suspended on the Company's line until after a sale of the First Division, and the purchasers had secured from the Minister of Railways *a license to operate*, to be followed by their securing the passage of an Incorporating Act, on the application for which proper terms providing for the life of the Second Division and Branches would be imposed by Parliament. The Company further resisted the demand, upon the ground that it could not consent to a disintegration of its line, which would have been undoubtedly followed by ruin to the whole enterprise, as the following statement will show:—

The earnings for the First Division for the year ending 30th June, 1894, were.....	£33,108	10	0
The operating expenses	34,125	9	0
Deficit.....	£1,016	19	0

The General Manager estimates that the First Division earned in respect of traffic originating on, or destined for, the Second Division and Branches during the year ending 30th June, 1894, about £5,000. The net deficit for the above period, had the Second Division and Branches been closed, would have been, say, £6,016 19 0. on the First Division.

These figures show how utterly misleading was the statement referred to by the Chairman that the First Division is making money and could pay a dividend if that portion of the road were in their own hands; and it is difficult to understand how he could have ventured to repeat such

erroneous views, as the Company has at all times been and still is quite willing to supply all the information in its power to any parties entitled to it, which would clearly show the incorrectness of any such contention, as well as of the Chairman's further statement that the Allans were taking the Bondholders moneys to pay their losses.

The above calculation is based on the schedule of division of earnings in effect now governing the operation of the First and Second Divisions of the Railway.

The Messrs. Allan have endeavored to impress these views upon the Chairman and the Committee of Bondholders, and have endeavored to get them to allow matters to remain in *statu quo*, which position perfectly protects the rights of the Bondholders, until it can be ascertained whether or not the Dominion Government will extend the same assistance to the Manitoba and North-Western Railway as it has done to other similarly situated lines.

At the instance of the Messrs. Allan, the Dominion Government at the last Session of Parliament agreed to advance $3,200 a mile for extension, and the Company are not without hope that that subsidy will be augmented; and assuredly it is to the interest of all concerned that the Company and the Messrs. Allan, who have so much at stake, should have latitude given to them to bring this about.

The policy of the Messrs. Allan has been to conserve the interests of the whole Railway. They are interested in the Company, and its kindred enterprises, to an extent almost equal to the amount of the first mortgage bonds. They have never received a dollar of interest upon their Railway investments. They have unremittingly given their attention during the last two years to furthering the interests of the Railway, in which the Bondholders are interested in priority to them. They have secured the passage of favorable legislation by the Parliaments of Canada and Manitoba, and the granting of a further subsidy by the Dominion Govern-

ment, which affords hope of more success in that quarter in the future. They have succeeded in preserving all the Company's valuable traffic contracts with the connecting Railway at Portage la Prairie, upon which the life of the road in great part depends; and have in all this of necessity served the Bondholders interest before they served their own. The Railway accounts have been open to the Trustees Solicitors; all information asked for has been furnished; none has ever been refused, as stated by the Chairman; the Receiver's accounts have been passed monthly, after notification to the Trustees Solicitors, and not a dollar of the Receiver's expenditure has ever been disallowed as improper.

The Bondholders position is absolutely secured; they are under the protection of the Court; and it is manifestly to the benefit of all that the Railway should be managed with as little expense as possible. The appointment of a second Receiver only adds to the expense without giving any further protection to the Bondholders.

The question in dispute, as to the application of the gross receipts to the expenses of the whole Railway, which is the only point in contention, can be readily settled by the Court, and it will probably be necessary to have this done before any re-organization scheme can be laid before the Bondholders.

The scheme proposed by Mr. Coates to the Messrs. Allan could not be entertained, as it involved the Messrs. Allan giving up their first lien upon the portion of the line built by themselves, and charging all the assets they hold in connection with the Railway with an issue of bonds of which they were to receive an insignificant proportion, and the interest of which could not be earned before the period for which foreclosure was optional with the Bond-holders.

If it was the desire of the Chairman and Trustees to destroy the property, they could not have taken a more certain way to effect it than by the course they have pursued.

No matter what the decision of the Courts may be, we say advisedly, it is against the interest of the First Division that the Railway should be severed; the only hope for anybody interested of getting any return on the investment, being the building up and extension of the line.

If the security holders on all divisions of the line work in harmony, we are by no means hopeless of the future. The prospects of business along the line of the Railway are improving. The farmers have come to the conclusion that wheat is not the only staple of the country, and are now engaged largely in cattle raising and mixed farming, which will result in increased and more certain earnings to the Railway.

We believe that the true policy to be observed in the interest of the property is to operate it as it is now being operated with rigid regard to economy, awaiting the result of the approaching grain business, which promises a surplus, and to urge upon the Government the granting of an additional subsidy to extend the line into the fertile belt beyond the present terminus of Yorkton, to be followed by an amalgamation or re-organization of the Company's bonded indebtedness, which will give to all security holders a fair proportion of a new issue.

I have been delayed in replying to Mr. Coates statements, hoping to receive from him a list of the Bondholders, in order that I might address them individually, but have just received a letter from his partner, Mr. Hanson, stating that the Committee of Bondholders refuse to furnish the list but offer to distribute my circular letter provided the expense be paid, unless there are any serious objections, and copies of this letter have accordingly been forwarded to the Chairman of the Committee for distribution.

ANDREW ALLAN,

President.

MONTREAL, 9th Oct., 1894.

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